

April 20, 2016
AK Steel Corporation
HB 5557 and HB 5558

Testimony to the House Tax Policy Committee in support of HB 5557 and HB 5558

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Mr. Chair and committee members, my name is Mike Tuomey and I am here on behalf of AK Steel Corporation (i.e, "AK"). I would like to thank you for the opportunity to share our position of support for House Bill 5557 and House Bill 5558.

AK Steel is fully in support of these bills as they address an unanticipated consequence of the 2012 tax regime change from the Michigan Business Tax to the Corporate Income Tax.

The current incentive structure originated in the acquisition by the Russian company Severstal of the former Rouge Steel Company out of bankruptcy in January 2004, after Rouge Steel struggled unsuccessfully through the unprecedented 1999-2003 period of 30+ steel restructurings.

After a two-year period of acclimation to its acquisition, Severstal began in 2006 what became a 5-year \$1.4 billion modernization program of the Dearborn operations.

State & local support for the modernization program consisted of two elements: first, two Brownfield credits (totaling \$40M) to assist on the capital cost element of the program and, second, a MEGA credit (20 years, totaling \$55-60M) to assist on the on-going operating cost element. The modernization was completed in late 2011.

Severstal made the decision to divest the last of its U.S. operations in 2014, leading eventually to AK's acquisition on September 16, 2014 of a single, 100% interest in Severstal's Dearborn operation, the former Severstal Dearborn LLC and currently AK's Dearborn Works.

It is AK Steel's belief and position that the acquisition included full rights and responsibilities relative to the MEGA refundable credit granted in 2005 and the remaining Jumbo Brownfield refundable credits granted in 2011.

Rationale for Support for AK Steel

AK Steel acquired Dearborn Works as part of its strategic footprint across PA, OH, IN, MI, KY and fully intends to operate it consistent with the MEGA agreement requirements.

This is not a superficial commitment. The U.S. flat-rolled carbon steel industry segment is challenged by low capacity utilization of 70-75% and historically high levels of imported steel. For publicly-held U.S. steel companies, market capitalizations have declined immensely in the past year. We at AK Steel have lost money operationally, continue to do so, and don't see relief. We have filed trade cases. We are tightening our belts and making sure that we are spending every dollar wisely. As one point of reference on the challenging nature of the steel business in the U.S., Severstal's purchase of the Dearborn business out of bankruptcy in 2004 was priced at \$340 million. After investing the \$1.4 billion over 5 years, Dearborn's sale price to AK Steel was approximately \$700 million. That's \$1.0 billion in capital losses over a 10 year ownership period. Yet, notwithstanding these challenges, AK Steel is committed to its Michigan operations.

Dearborn Works represents over 1,500 direct jobs. Despite our challenging environment, we are currently hiring both salaried and hourly (UAW) personnel.

As you likely know, indirect employment effects in Michigan are substantial. These include Cleveland Cliff's Tilden Mine in the U.P. (Dearborn consumes 3+ million tons of Tilden ore annually, while AK Steel's other operations consume an additional 2-3 million tons, totaling over \$500 million in revenue, and approximately 350 jobs). Beyond Dearborn's \$1.4 billion investment mentioned a moment ago, we recently announced a \$29 million project to upgrade Dearborn Works for our advanced high strength steel products that help our automotive partners achieve increasingly stringent CAFÉ standards. Beyond that, Dearborn Work's maintenance budget, before capex, is over \$60.0 million annually, most of which is spent on and with enterprises located in Michigan. Studies show this creates multiple additional jobs at local business for each direct AK employee.

For these reasons and many more, we ask that you join AK to support this legislation enabling MEDC to honor commitments it made to the hard working men and women of Dearborn Works.